



Prior Period Adjustments (PPA)

**How and When to submit a request for PPA
approval**

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- OUSD(C) Memorandum dated June 8, 2003, subject: Guidance on Prior-Period Adjustments
- FASAB SFFAS No. 21 - Reporting Corrections of Errors and Changes in Accounting Principles
- Treasury website includes scenarios and accounting transactions
- Included as attachment 14 to DFAS-Arlington Memorandum, subject: Fiscal-Year (FY) 2005, 1st Quarter Unaudited Financial Statements (UFS) Guidance
 - Attachment 14A is the June 8, 2003 memo cited above
 - Attachment 14B is additional information on format in UFS

- PPA is an adjustment used when an error in the prior period is found.
- The FASAB SFFAS No. 21 indicates that PPA USSGL with restatement of financial statements are used when that error would MATERIALLY misstate the prior-period or the current-period financial statements AND it would be probable that the judgment of a reasonable person relying on the information would be changed or influenced by the inclusion of the item.
- The PPA accounts would NOT be used when an error or misstatement is discovered that does NOT MATERIALLY misstate the financial statements. In such cases, post a correcting adjustment as a current-year transaction to current-year accounts.
- The FASAB SFFAS No. 21 instructs that prior period adjustments without restatement will be used for changes in accounting principles unless otherwise directed by a new accounting standard.

Restatement Questions



Question: When do PPA packages have to be prepared?

Answer: Immediately upon discovery of errors, the process to determine whether the PPA is needed and the PPA package prepared.

Question: Why restate for material errors?

Answer: To more accurately present the prior year column for comparison to the current year. This will allow the reader a better understanding of the transactions for the entity.

Question: Can DDRS accommodate the restated financial statement format?

Answer: Yes. Adjustments to the presentation of the prior period to reflect the restated amounts can be made using the DDRS comparative balance adjustment tool. The result will be the restated prior period column and will then be more comparable to the current period. In addition, the Statement of Changes in Net Position format to reflect:

Beginning Balance	\$x,xxx,xxx.xx	
Prior Period Adjustments		
2.a. Prior Period Adjustments - Restated (+/-)	<u>\$x,xxx,xxx.xx</u>	
2.b. Beginning Balance, Restated	\$x,xxx,xxx.xx	
2.c. Prior Period Adjustments - Not Restated (+/-)		<u>\$x,xxx,xxx.xx</u>
Beginning Balance, as adjusted	\$x,xxx,xxx.xx	

- Materiality must be calculated against a materiality base.
 - ◆ If the misstatement is an asset account, the materiality base could be total assets;
 - ◆ If the error is in an expense account, the materiality base could be total expenses;
 - ◆ If the misstatement is in a liability account, the materiality base could be total liabilities as opposed to total liabilities plus total net cost of operations.
- The materiality base should be net of intragovernmental balances on the books of the reportable entity.
- For DoD reporting entities, an omission or misstatement is considered material if it is one percent or more of its materiality base.
- Each DoD reporting entity should calculate materiality separately. An entity is considered a reporting entity if it publishes financial statements for audit.

Determining Materiality - An Example



- Suppose an entity found that there was a significant amount of inventory that had not been captured. There had been a system used by a site that no one was aware of. Value of the inventory has been determined to be \$400M.
- The total reporting entity assets were \$300B (net of intragovernmental balances) and will be used as the basis for determining materiality.
- $400\text{M}/300\text{B}$ provides us a 1.4% materiality and meets the threshold for restating the prior year balance.
- However, if that amount had been $200\text{M}/300\text{B}$ or .07%, the correction would be made as a current year adjustment to current year accounts.

- Request approval for PPA from DFAS Arlington
 - **PPA package should be prepared and processed immediately upon the discovery of a material error.**
 - Provide an explanation of how the amount was determined to be material.
 - Provide an detailed explanation of what caused the omission or misstatement. All required entries **MUST INCLUDE** USSGL and may also include individual GLAC's where used.
 - Required: What were the original entries used?
 - Required: What should have the original entries been if it had been done correctly?
 - Required: What is your proposed correction entries?
 - Provide documentation sufficiently substantive to support an audit
 - Provide documentation showing coordination with the entity's auditors.

- Each DoD entity will need to include sufficient display and disclosure of approved prior period adjustments in the respective footnotes to the financial statements to adequately avoid misleading the reader.
- The OUSD(C)/A&FP&A will be the final arbiter in case of dispute.
- Reference materials:
 - ◆ FASAB SFFAS No. 21, Reporting Corrections of Errors and Changes in Accounting Principles, FASAB website, www.fasab.gov
 - ◆ Prior Period Adjustment Scenario, Treasury website, www.fms.treas.gov/ussgl/approved_scenarios
 - ◆ OUSD(C) Memorandum dated June 8, 2003, subject: guidance on prior-period adjustments

Your PPA Request Checklist



- ✓ Begin Preparation of your PPA Package **immediately upon discovery** of what appears to be a material error in the prior period - **Do Not Wait for end of quarter.**
- ✓ Contact your auditors to alert them of a PPA request that will be coordinated through them. Their coordination will be included with the PPA request.
- ✓ Contact DFAS-Arlington to advise of a PPA request that is being prepared and keep DFAS-Arlington apprised of progress toward submission.

Your PPA Request Checklist



- ✓ The completed, auditor coordinated PPA request package must be received by DFAS Arlington no later than the 3rd day following the end of the 1st quarter and no later than the 15th day of the month preceding the end of the quarter for the 2nd, 3rd, and 4th quarters. The package will include:
 - ✓ **The original entries used and explanations of the entries and what the entries should have been had they been correctly done**
 - ✓ **These must be submitted using the USSGL (your GLAC can be additional information)**
 - ✓ **How it was determined that an error occurred (if the error is not being reviewed at the reporting entity level, notify the reporting entity as the PPA request package will need to be submitted at the reporting entity level). Documentation sufficiently substantive to support an audit.**
 - ✓ **Determine if the error is MATERIAL to the reporting entity level**
 - ✓ **Prepare the correcting entries and explanations, including supporting documentation**
 - ✓ **Auditor coordination documentation**

Your PPA Request Checklist



- √ DFAS-Arlington will review the PPA request and make a determination if the package is complete and falls within the requirements to process the PPA.
- √ OUSD(C), Director, A&FP&A will be the final arbiter in case of dispute of the determination.
- √ After approval, an email will be sent to the PPA submitter. Each DoD entity will then need to include a sufficient display and disclosure of information of any PPA's in their respective footnotes to the financials statements to adequately avoid misleading the reader.

